Far EasTone Telecommunications Co., Ltd.

Financial Statements for the Years Ended December 31, 2004 and 2003 and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Far EasTone Telecommunications Co., Ltd.

We have audited the accompanying balance sheets of Far EasTone Telecommunications Co., Ltd. ("the Company") as of December 31, 2004 and 2003 and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Rules Governing Auditing and Certification of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Also, we have audited the consolidated financial statements of the Company and subsidiaries as of December 31, 2004 and 2003 and have issued an unqualified opinion.

February 4, 2005

<u>*Notice to Readers*</u>

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2004 Amount	%	2003 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	$ 3,265,431	4	$ 2,868,156	4
Accounts and notes receivable, net of allowance for doubtful accounts of $1,031,681 in 2004 and $586,957 in 2003 (Notes 2)	3,492,574	4	3,735,277	5
Receivables from related parties (Notes 2 and 15)	1,018,656	1	258,144	1
Inventories, net (Notes 2 and 4)	565,436	1	801,100	1
Prepaid expenses (Notes 2 and 15)	1,314,443	2	1,668,992	2
Deferred income tax assets - current (Notes 2 and 14)	1,144,315	1	1,392,724	2
Other current assets	28,857	-	43,400	-
Total current assets	10,829,712	13	10,767,793	15
INVESTMENTS IN SHARES OF STOCK (Notes 2, 5, 14 and 17)				
Equity method	44,030,365	49	21,576,987	30
Prepayment for investments	-	-	65,000	-
Total investments in shares of stock	44,030,365	49	21,641,987	30
PROPERTIES (Notes 2, 6 and 15)				
Cost				
Land	852,980	1	952,504	1
Buildings and equipment	1,610,106	2	1,698,803	3
Operating equipment	49,829,862	56	48,644,499	68
Computer equipment	6,798,060	8	6,284,316	9
Office equipment	777,069	1	772,482	1
Leasehold improvements	1,412,350	1	1,331,900	2
Miscellaneous equipment	49,405	-	54,834	-
Total cost	61,329,832	69	59,739,338	84
Less - accumulated depreciation	31,475,181	35	24,388,503	34
	29,854,651	34	35,350,835	50
Construction in progress and advances related to acquisition of equipment	2,761,889	3	2,446,063	3
Net properties	32,616,540	37	37,796,898	53
OTHER ASSETS				
Rental assets, net (Notes 2, 6 and 7)	190,976	-	-	-
Refundable deposits (Note 15)	251,960	-	241,718	1
Deferred income tax assets - noncurrent (Notes 2 and 14)	580,443	1	813,904	1
Restricted assets (Note 17)	350,000	-	-	-
Other (Note 2)	17,904	-	169,979	-
Total other assets	1,391,283	1	1,225,601	2
TOTAL	$ 88,867,900	100	$ 71,432,279	100

LIABILITIES AND STOCKHOLDERS' EQUITY	2004 Amount	%	2003 Amount	%
CURRENT LIABILITIES				
Short-term loans (Note 8)	$ -	-	$ 100,000	-
Notes payable	41,332	-	30,670	-
Accounts payable	381,145	1	1,043,206	1
Payables to related parties (Note 15)	298,452	-	224,639	-
Income tax payable (Notes 2 and 14)	1,456	-	24,083	-
Accrued expenses	3,323,567	4	2,635,127	4
Payables related to acquisition of properties	1,551,016	2	1,808,776	3
Guarantee deposits received - current	1,178,692	1	1,502,750	2
Unearned revenues (Note 2)	1,657,949	2	1,859,688	3
Current portion of long-term liabilities (Notes 2, 6, 9 and 15)	1,467,618	2	1,226,000	2
Other current liabilities	272,420	-	169,615	-
Total current liabilities	10,173,647	12	10,624,554	15
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (Notes 2, 9, 15 and 18)				
Long-term bonds payable	8,670,000	10	13,270,436	19
Long-term debt payable	-	-	4,286,942	6
Long-term lease payable	44,250	-	-	-
Total long-term liabilities	8,714,250	10	17,557,378	25
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 12)	226,308	-	169,278	-
Guarantee deposits received - noncurrent	41,629	-	50,841	-
Total other liabilities	267,937	-	220,119	-
Total liabilities	19,155,834	22	28,402,051	40
STOCKHOLDERS' EQUITY				
Common stock - $10 par value				
Authorized - 4,200,000 thousand shares in 2004 and 3,360,000 thousand shares in 2003				
Issued - 3,842,311 thousand shares in 2004 and 2,697,786 thousand shares in 2003	38,423,115	43	26,977,860	38
Capital surplus				
Paid-in capital in excess of par value	6,023,801	7	5,944,514	8
From business combination	8,482,381	9	-	-
From investments in shares of stock	-	-	29,086	-
Total capital surplus	14,506,182	16	5,973,600	8
Retained earnings				
Legal reserve	2,697,301	3	1,878,488	3
Unappropriated earnings	14,069,797	16	8,197,228	11
Total retained earnings	16,767,098	19	10,075,716	14
Cumulative translation adjustments	15,671	-	3,052	-
Total stockholders' equity	69,712,066	78	43,030,228	60
TOTAL	$ 88,867,900	100	$ 71,432,279	100

The accompanying notes are an integral part of the financial statements.

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	2004		2003	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 15)				
Service revenues	$ 37,061,787	92	$ 34,515,474	93
Sales of cellular phone equipment and accessories, net	3,146,300	8	2,545,751	7
Other	21,394	-	5,938	-
Total operating revenues	40,229,481	100	37,067,163	100
OPERATING COSTS (Notes 2, 12, 13 and 15)				
Cost of services	16,225,352	40	15,787,793	42
Cost of sales	3,469,782	9	2,822,662	8
Total operating costs	19,695,134	49	18,610,455	50
GROSS PROFIT	20,534,347	51	18,456,708	50
OPERATING EXPENSES (Notes 2, 11, 12 and 14)				
Marketing	5,358,327	13	6,106,191	16
General and administrative	3,827,524	10	3,582,399	10
Research and development	301,902	1	317,452	1
Total operating expenses	9,487,753	24	10,006,042	27
OPERATING INCOME	11,046,594	27	8,450,666	23
NONOPERATING INCOME AND GAINS				
Equity in investees’ net gains (Notes 2 and 5)	3,796,571	10	-	-
Commission revenue (Note 15)	126,408	1	-	-
Management service revenue (Note 14)	79,187	-	181,996	1
Foreign exchange gains, net	78,059	-	38,469	-
Gain from sales of non-performing accounts receivable	77,646	-	-	-
Interest income	15,913	-	42,920	-
Other (Note 15)	54,271	-	40,533	-
Total nonoperating income and gains	4,228,055	11	303,918	1
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 2, 6 and 18)	337,070	1	316,164	1
Loss on disposal of properties, net (Notes 2 and 15)	189,214	1	-	-
Provision for losses on properties not currently used in operations (Note 2)	130,000	-	-	-
Equity in investees’ net losses (Notes 2 and 5)	-	-	344,626	1
Other (Notes 7 and 13)	65,736	-	4,691	-
Total nonoperating expenses and losses	722,020	2	665,481	2

(Continued)

	2004		2003	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	$ 14,552,629	36	$ 8,089,103	22
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 13)	509,553	1	(99,030)	-
NET INCOME	$ 14,043,076	35	$ 8,188,133	22

	2004		2003	
	Income Before Income Tax	**Net Income**	**Income Before Income Tax**	**Net Income**
EARNINGS PER SHARE (Note 10)				
Basic	$ 3.88	$ 3.75	$ 2.73	$ 2.76
Diluted	$ 3.74	$ 3.61	$ 2.62	$ 2.65

(Concluded)

The accompanying notes are an integral part of the financial statements.

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars)

	Common Stock Issued (Notes 2 and 10)		Capital Surplus (Notes 2 and 10)				Retained Earnings (Notes 2 and 10)			Cumulative Translation Adjustments (Note 2)	Total Stockholders' Equity
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	From Business Combination	From Investments in Shares of Stock	Total	Legal Reserve	Unappropriated Earnings	Total		
BALANCE, JANUARY 1, 2003	2,305,800	$ 23,058,000	$ 5,967,572	$ -	$ 29,086	$ 5,996,658	$ 1,097,646	$ 7,895,106	$ 8,992,752	$ 3,098	$ 38,050,508
Appropriation of 2002 earnings											
Legal reserve	-	-	-	-	-	-	780,842	(780,842)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(140,551)	(140,551)	-	(140,551)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(70,276)	(70,276)	-	(70,276)
Cash dividend - 13%	-	-	-	-	-	-	-	(2,997,540)	(2,997,540)	-	(2,997,540)
Stock dividend - 16.9%	389,680	3,896,802	-	-	-	-	-	(3,896,802)	(3,896,802)	-	-
Capitalization of capital surplus - 0.1%	2,306	23,058	(23,058)	-	-	(23,058)	-	-	-	-	-
Net income in 2003	-	-	-	-	-	-	-	8,188,133	8,188,133	-	8,188,133
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	(46)	(46)
BALANCE, DECEMBER 31, 2003	2,697,786	26,977,860	5,944,514	-	29,086	5,973,600	1,878,488	8,197,228	10,075,716	3,052	43,030,228
Issuance of new stock and reissuance of treasury stock in exchange of investments in shares of stock	693,523	6,935,232	-	8,482,381	-	8,482,381	-	(821,733)	(821,733)	-	14,595,880
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	(29,086)	(29,086)	-	-	-	-	(29,086)
Appropriation of 2003 earnings											
Legal reserve	-	-	-	-	-	-	818,813	(818,813)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	(147,387)	(147,387)	-	(147,387)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(73,693)	(73,693)	-	(73,693)
Cash dividend - 14%	-	-	-	-	-	-	-	(4,748,620)	(4,748,620)	-	(4,748,620)
Stock dividend - 4.6%	156,026	1,560,261	-	-	-	-	-	(1,560,261)	(1,560,261)	-	-
Capitalization of capital surplus - 5.4%	183,161	1,831,611	(1,831,611)	-	-	(1,831,611)	-	-	-	-	-
Net income in 2004	-	-	-	-	-	-	-	14,043,076	14,043,076	-	14,043,076
Conversion of overseas convertible bonds into common stock	111,815	1,118,151	1,910,898	-	-	1,910,898	-	-	-	-	3,029,049
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	12,619	12,619
BALANCE, DECEMBER 31, 2004	3,842,311	$ 38,423,115	$ 6,023,801	$ 8,482,381	$ -	$ 14,506,182	$ 2,697,301	$ 14,069,797	$ 16,767,098	$ 15,671	$ 69,712,066

The accompanying notes are an integral part of the financial statements.

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(In Thousands of New Taiwan Dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 14,043,076	$ 8,188,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,281,538	7,070,353
Provision for doubtful accounts	771,479	416,689
Losses on disposal of obsolete inventory	2,458	-
Provision for losses on inventories	6,546	4,691
Equity in investees' net losses (gains)	(3,796,571)	344,626
Losses (gains) on disposal of properties and properties not currently used in operations, net	189,214	(8,379)
Provision for losses on properties not currently used in operations	130,000	-
Accrued pension cost	79,994	38,148
Deferred income taxes	481,870	(182,361)
Interest premium on convertible bonds	34,297	33,886
Unrealized exchange gains on overseas convertible bonds	(56,508)	(95,910)
Other	(63,757)	43,329
Changes in operating assets and liabilities		
Decrease (increase) in		
Accounts and notes receivable	(528,776)	(935,389)
Receivables from related parties	(852,480)	(157,066)
Inventories	226,660	(149,777)
Prepaid expenses	354,549	87,636
Other current assets	13,440	(2,791)
Increase (decrease) in		
Notes payable	10,662	1,726
Accounts payable	(662,061)	378,138
Payables to related parties	73,813	(435,590)
Income tax payable	(22,627)	(113,012)
Accrued expenses	688,440	(217,698)
Unearned revenues	(201,739)	(190,622)
Other current liabilities	102,805	41,280
Net cash provided by operating activities	18,306,322	14,160,040
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments in shares of stock	(654,404)	(13,698,461)
Prepayment for investments	-	(65,000)
Acquisition of properties	(2,747,231)	(5,222,208)
Proceeds from sales of properties and properties not currently used in operations	94,774	96,570
Decrease (increase) in refundable deposits	(10,242)	131,561
Increase in restricted assets	(350,000)	-
Decrease (increase) in other assets	8,766	(95,634)
Net cash used in investing activities	(3,658,337)	(18,853,172)

(Continued)

	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	$ (100,000)	$ 100,000
Issuance of long-term bonds payable	-	8,472,460
Proceed from long-term debts	3,420,000	4,896,942
Repayment of long-term liabilities	(8,932,942)	(4,485,839)
Bonus paid to employees and directors	(221,080)	(224,941)
Cash dividends paid	(4,748,620)	(2,997,540)
Decrease in guarantee deposits received	(333,270)	(438,136)
Repurchase of treasury stock	(3,334,798)	-
Net cash provided by (used in) financing activities	(14,250,710)	5,322,946
NET INCREASE IN CASH AND CASH EQUIVALENTS	397,275	629,814
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,868,156	2,238,342
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,265,431	$ 2,868,156
SUPPLEMENTARY INFORMATION		
Interest paid (excluding capitalized interest)	$ 323,273	$ 219,524
Income tax paid	$ 51,622	$ 196,343
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 1,467,618	$ 1,226,000
Reclassification of properties into rental assets	$ 192,908	$ -
Conversion of overseas convertible bonds into common stock and capital surplus	$ 3,029,049	$ -
ISSUANCE OF NEW STOCK AND REISSUANCE OF TREASURY STOCK IN EXCHANGE OF INVESTMENTS IN SHARES OF STOCK		
Common stock	$ 6,935,232	$ -
Capital surplus - paid-in capital in excess of par value	8,482,381	-
Issuance of treasury stock	3,334,798	-
Decrease in unappropriated earnings	(821,733)	-
	$ 17,930,678	$ -
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 2,548,471	$ 4,910,266
Decrease in payables related to acquisition of properties	257,760	311,402
Decrease (increase) in obligations under lease payable	(59,000)	540
Actual cash paid for acquisition of properties	$ 2,747,231	$ 5,222,208
PROCEEDS FROM DISPOSAL OF PROPERTIES AND PROPERTIES NOT CURRENTLY USED IN OPERATIONS		
Total amount of properties sold	$ 24,667	$ 173,978
Decrease in receivables from properties sold	1,103	8
Decrease (increase) in receivables from related parties	69,004	(77,416)
Actual cash received from disposal of properties and properties not currently used in operations	$ 94,774	$ 96,570

The accompanying notes are an integral part of the financial statements.

1. GENERAL

Far EasTone Telecommunications Co., Ltd. (the "Company") was incorporated in the Republic of China on April 11, 1997 and began commercial operations on January 20, 1998. The Company's shares have been traded and listed on the ROC Over-the-Counter Securities Exchange (known as GreTai Securities Market) since December 10, 2001. The Company provides wireless communications, leased circuit, Internet and international simple resale (ISR) services and also sells cellular phone equipment and accessories.

Far Eastern Textile Co., Ltd. is the ultimate parent company of the Company. In October 2003, the other principal stockholder, AT&T Wireless Group and its affiliates, transferred to Far Eastern Textile Co., Ltd. and its affiliate ("Far Eastern Group") all of it's stock held in the Company. As of December 31, 2004, Far Eastern Group directly or indirectly owns 51.43% of the Company's shares.

On January 13, 2005, An Ho Garment Co., Ltd. and Yuan Tong Investment Co., Ltd., affiliates of Far Eastern Textile Ltd., sold to foreign investors 64,995 thousand and 45,000 thousand shares, respectively, by issuing Global Depositary Receipts. As a result, the equity of the Company owned by Far Eastern Group directly and indirectly decreased to 48.37%.

The Company provides wireless communications services by geographical sector under two type I licenses - GSM900 for the northern region of Taiwan and GSM1800 for all island-wide ("GSM" means global system for mobile communications) issued by the Directorate General of Telecommunications ("DGT") of the Republic of China ("ROC"). These licenses allow the Company to provide services for 15 years beginning in 1997, with an annual license fee of 2% of total wireless communications service revenues.

The DGT also issued to the Company a type II license, allowing it to provide Internet services for 10 years beginning in 1999 for a fixed annual license fee based on the amount of the Company's capital stock. In addition, the Company provides services under a type II-ISR license for 10 years beginning in December 2001 and pays an annual license fee of 0.5% of ISR service revenues and is licensed to provide local/domestic long distance land cable leased-circuit services for 15 years beginning in January 2003, with an annual license fee of 1% of leased circuit service revenues.

The Company had 3,465 and 2,366 employees as of December 31, 2004 and 2003, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements conform to the Guidelines Governing the Preparation of Financial Reports for Securities Issuers and accounting principles generally accepted in the ROC.

The Company uses reasonable estimates for allowance for doubtful accounts, allowance for losses on inventories, allowances for losses on properties not currently used in operations, depreciation and amortization, income taxes and pension cost. Because of the uncertainty of circumstances, however, estimates may differ from the actual outcome.

The Company's significant accounting policies are summarized as follows:

Current and Noncurrent Assets and Liabilities

Current assets include non-restricted cash or cash equivalents as well as items expected to be converted into cash or used within one year. Current liabilities are obligations expected to be settled within one year. All other assets and liabilities are classified as noncurrent.

Cash Equivalents

Commercial paper purchased under agreements to resell with original maturities of not more than three months are classified as cash equivalents.

Allowance for Doubtful Accounts Receivable

An allowance for doubtful accounts receivable is provided on the basis of the aging status and estimated collectibility of receivables from subscribers and other parties.

Inventories

Inventories are stated at the lower of cost or market value (net realizable value). Cost is determined based on the weighted-average method.

Investments in Shares of Stock

Investments in shares of stock in companies in which the Company owns at least 20% of investees' common stock or exercises significant influence over their operating and financial policy decisions are accounted for by the equity method. Under this method, the investment is initially carried at cost on the acquisition date. The investment carrying values are then adjusted proportionately to the Company's share in the investees' net income or net loss. The difference between the cost of the investment and the Company's equity in the investees' net assets is amortized over three years. Any cash dividends received are recognized as a reduction in the carrying value of the investments. If the current year's financial statements of less than majority-owned investees are not timely available to the Company, the equity in the net income or net loss of these investees is recognized in the succeeding year on the basis of the financial statements of the previous year. If an investee issues additional shares and the Company acquires these shares at a percentage different from its current equity in the investee, the resulting increase in the Company's equity in its investee's net assets is credited to capital surplus. Any decrease in the Company's equity in the investees' net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings.

Costs of investments sold are determined based on the weight-average method.

Properties and Rental Properties

Properties and rental properties are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Major improvements as well as interest expense incurred during the construction period are capitalized, while maintenance and repairs are expensed currently. Properties still being used beyond their service life years are depreciated over their newly estimated service lives.

Equipment under capital leases and the related liability are stated at the lower of (1) the fair value of the equipment at the beginning of the lease or (2) the total present value of future lease payments and the bargain purchase option.

Useful lives are estimated as follows:

	Useful Life Years
Buildings	48
Building and equipment	5-8
Operating equipment	5-8
Computer equipment	3-5
Office equipment	5
Leasehold improvements	5-10
Miscellaneous equipment	5-8

Upon retirement or other disposal (e.g., sale) of properties and rental properties, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is credited or charged to nonoperating income or expenses.

Properties not Currently Used in Operations

Properties not currently used in operations (included in other assets - miscellaneous), such as telecommunications equipment expected to be retired or disposed, are stated at the lower of cost or net realizable value.

Revenue Recognition

Revenue is recognized when the earnings process is completed or virtually complete and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Usage revenues (equal to excess of minutes of traffic included in the fixed monthly service fees) from wireless services, international simple resale services, Internet and data services and interconnection calls, net of any applicable discount, are billed according to customers' usage and are recognized on the basis of minutes of traffic processed. Other revenues are recognized as follows: (a) fixed monthly service fees and leased-circuit service revenues are accrued each month; and (b) prepaid call and internet card services are recognized as income based upon customer usage.

The revenues from and expenses for the sale of cellular phone equipments and accessories are recognized when the products are delivered to and accepted by the customers as the related transaction is considered a separate earnings process from the sale of wireless services.

The amount received at the start of a bundled contract (which covers both the purchase price of a cellular phone unit and service fees for an equivalent number of minutes of traffic each month throughout the validity period of the contract) is deferred and recognized as revenue over the service period of the contract using the straight-line method. If the sum of the cost of the cellular phone unit and the commission paid to the dealers (the "customer acquisition cost") exceeds the amount received at the beginning of the contract, the excess is charged to marketing expense. The portion of the customer acquisition cost equivalent to the amount received at the beginning of the contract is deferred and amortized as marketing expenses over the validity period of the contract using the straight-line method.

Operating revenues are measured at fair values based on the prices negotiated between the Company and the customers. Since the future values of operating revenues resulting from receivables within one year approximate the fair values of these receivables, the fair values are not recalculated based on the pro forma interest rate method.

Promotion Expenses

Commissions and cellular phone equipments subsidy costs (other than those pertaining to the bundle contract mentioned above) related to the Company's promotions are treated as marketing expenses in the year when the service to a subscriber is activated.

Pension Costs

The Company has a defined benefit pension plan for all regular employees. Benefits are based on the number of service years and basic pay on the final month before retirement.

Pension costs are recognized on the basis of actuarial calculations. Unrecognized net transition obligations and unrecognized pension gains or losses are amortized using the straight-line method over 15 years and the average remaining service of employees, respectively.

Convertible Bonds

The Company issued overseas convertible bonds at par value and without any discount or premium. The Company gave the bondholders the right to redeem the convertible bonds in cash at par value plus the interest-premium on a specific date. The interest-premium of puttable convertible bonds, which is the difference between the specified put price and the par value, is amortized using the interest method and is recognized as a liability over the period from the issuance date of the bonds to the expiry date of the put option. The direct and necessary costs (included in other assets - miscellaneous) of issuing convertible bonds is amortized using the straight-line method over the same period as the interest-premium.

When the bondholder exercises the conversion option, the Company uses the book-value approach. The Company will write off the unamortized issuance costs, recognized interest-premium and par value of the convertible bonds. The amount of capital stock is valued as the net carrying amount that is written off, and the amount in excess of the par value of capital stock is recognized as additional paid-in capital.

Income Tax

Deferred income tax assets are recognized for the tax effects of deductible temporary differences and unused investment tax credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences. A valuation allowance is recognized for deferred income tax assets that are not certain to be realized. Deferred income tax assets and liabilities are classified as current or noncurrent on the basis of the classifications of the related assets and liabilities. A deferred asset or liability that cannot be related to an asset or a liability in the financial statements is classified as current or noncurrent according to the expected realization date of the temporary difference.

Tax credits earned for certain purchases of telecommunications and other equipment, research and development expenses and personnel training expenses are accounted for as a reduction in the current period's income tax expense.

Adjustments of prior years' tax liabilities are added to, or deducted from, the current period's income tax expenses.

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders resolve to retain the earnings.

Foreign Currency Transactions

Foreign currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates when foreign currency assets and liabilities are settled, are credited or charged to income in the period of settlement.

On the balance sheet dates, the balances of foreign-currency denominated assets and liabilities are restated at the prevailing exchange rates, and the resulting differences are recorded as follows:

a. Equity-method investments - as cumulative translation adjustments under stockholders' equity; and

b. Other assets and liabilities - as credits or charges to income.

Financial Derivatives

The notional amounts of interest rate swap agreements are not recognized in the financial statements because these agreements do not require the settlement of such notional amounts. On the balance sheet dates or settlement dates, the amounts receivable or payable under the agreements, which result from differences in interest rates, are accrued as interest income or interest expense of the hedged item.

Forward exchange contracts are entered into as hedges of foreign-currency commitments and are recorded in New Taiwan dollars as assets and/or liabilities using the prevailing exchange rates on the starting dates. The premium or discount, which is the amount of the contract multiplied by the difference between the contracted forward rates and the prevailing exchange rates on the starting dates, is deferred and then recognized as an adjustment to the commitment when the hedged transactions occur. However, if the contract amount exceeds the foreign-currency amount of the related commitment, the amortization of the premium or discount related to the excess is recognized as gain or loss in the current year.

On the balance sheet date, the gains or losses on the contracts, computed by multiplying the contract amount by the difference between the rates on the starting dates and the balance sheet dates (or the rates last used to measure a gain or loss on that contract for an earlier period), are recognized in the same way used for amortizing the premium or discount described above. Also, the receivables and payables related to the forward contracts are netted out, and the net amount is presented as an asset or a liability.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2003 have been reclassified to conform to the presentation of financial statements as of and for the year ended December 31, 2004.

3. CASH AND CASH EQUIVALENTS

	December 31	
	2004	**2003**
Cash		
Cash on hand	$ 8,445	$ 7,334
Checking and demand deposits	1,174,649	1,312,659
Time deposits - interest of 2.35% to 2.53% in 2004 and 0.65% to 1.12% in 2003	554,407	1,548,163
	1,737,501	2,868,156
Cash equivalents		
Commercial paper purchased under agreements to resell - interest of 1.085% to 1.100% in 2004	1,527,930	-
	$ 3,265,431	$ 2,868,156

4. INVENTORIES

	December 31 2004	December 31 2003
Cellular phone equipment	$ 523,060	$ 754,715
SIM cards	31,246	47,827
Cellular phone accessories	31,068	11,950
	585,374	814,492
Less - allowance for losses	19,938	13,392
	$ 565,436	$ 801,100

Inventory insurance as of December 31, 2004 amounted to approximately $672,324.

5. INVESTMENTS IN SHARES OF STOCK

	December 31			
	2004		2003	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Equity method				
KG Telecommunications Co., Ltd. (former Yuan Ho Telecommunication Co., Ltd.)	$ 33,786,566	100.00	$ 11,698,382	100.00
Yuan-Ze Telecommunications Co., Ltd.	9,590,140	100.00	9,870,087	100.00
Far Eastern Electronic Toll Collection Co., Ltd.	433,544	45.00	-	-
Far Eastern Info Service (Holding) Ltd.	109,846	100.00	-	-
E. World (Holdings) Ltd.	65,433	85.92	8,518	19.00
Ding Ding Integrated Marketing Services Co., Ltd.	44,836	15.00	-	-
	44,030,365		21,576,987	
Prepayment for investments				
Far Eastern Electronic Toll Collection Co., Ltd. - Preparatory Office	-		65,000	
	$ 44,030,365		$ 21,641,987	

On October 7, 2003, the Company signed a definitive merger agreement with KG Telecommunication Co., Ltd. (the “former KGT”). The merger agreement was submitted to the special stockholders’ meetings of the Company, Yuan-Ho Telecommunications Co., Ltd. and the former KGT on November 25, 2003. he merger agreement with the former KGT provided for the transaction to occur in two steps (the “Combination”). To facilitate the combination with the former KGT, the Company formed a new wholly owned subsidiary in September 2003 called Yuan Ho Telecommunications Co., Ltd. (“Yuan-Ho”), which also was a party to the merger agreement. In connection with the first step of the Combination, Yuan-Ho issued 526,431 thousand shares for total proceeds of $11,698,461.

In the first step of the transaction, the former KGT merged with and into Yuan-Ho with Yuan-Ho as the surviving company. The first step was completed and effective on January 1, 2004.

As consideration for this step of the transaction, the former KGT shareholders became entitled to receive cash of $6.72, together with 0.46332 of one share of common stock of Yuan-Ho, for each the former KGT share that they owned, representing aggregate consideration to all the former KGT shareholders of $11,698,461 in cash and 806,567 thousand shares of common stock of Yuan-Ho Subsequent to completion of the first step of the transaction, Yuan-Ho obtained approval from the Department of Commerce, Ministry of Economic Affairs (MOEA) to change its name to KG Telecommunications Co., Ltd. ("KG Telecom ") and the former KGT no longer existed as a corporate entity. In addition, the capital of KG Telecom increased to $13,329,979 and the equity of KG Telecom owned by the Company was temporarily diluted to 39.49%. The other principal shareholders of KG Telecom are the original shareholders of the former KGT and held 60.51% ownership as of January 1, 2004.

In the second step, the Company swapped shares with KG Telecom. The stockholders of KG Telecom received one share of the Company stock in exchange for each KG Telecom share owned. The share swap agreement was submitted to the special stockholders' meetings of the Company and KG Telecom on February 18, 2004. On April 29, 2004, stockholders of KG Telecom received an aggregate of 806,567 thousand shares in the amounts of $17,930,678 (Note 10). KG Telecom became a wholly owned subsidiary of the Company.

Upon completion of the second step of the transaction, the Company accounted for the merger with KG Telecom as a wholly-owned subsidiary. The Company established control of KG Telecom as of January 1, 2004 as the Company held the majority of the board seats of KG Telecom, significant consideration had been paid and other elements of control had been established. As such, the Company recognized 100% of its investment income beginning January 1, 2004.

In March 2002, a subsidiary, Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze), obtained a 3G (third-generation wireless communications system) concession on March 15, 2002 through a bidding process and acquired additional shares of stock with an aggregate par value of $9,170,000. The Company subscribed for a portion of these shares (aggregate par value of $7,170,000), thus diluting its equity to 80.71%. For the purpose of integration of the telecommunications business and operational efficiency, the Company bought all the remaining shares of Yuan-Ze for $2,000,000 on December 16, 2003. Thus, Yuan-Ze became a wholly owned subsidiary of the Company.

On December 22, 2003, the Company's Board of Directors approved the merger of the Company with Yuan-Ze, with the Company as the surviving company. The merger is expected to be completed in 2005.

The Taiwan Area National Freeway Bureau of the Ministry of Transportation and Communications (MOTC) has launched a project called "Privatized Establishment and Implementation of the Freeway Electronic Toll Collection Program". To participate in this project, the Company and third parties incorporated Far Eastern Electronic Toll Collection Co., Ltd. ("FETETC"). MOTC selected FETETC through public appraisal and signed the contract on April 27, 2004.

Originally, the investment in E. World (Holdings) was accounted for by the equity method as the combined equity interests of the Far Eastern Group in E. World (Holdings) allowed the Company to exercise significant influence on its operating and financial policy decisions. The Company purchased shares from related parties amounting to $41,788 in June 2004 (Note 15). As a result, the Company's ownership increased from 19.00% to 85.92%. Since the ownership of E. World (Holdings) exceeds 50%, the Company consolidates this entity and the amounts recognized as equity in the net income or net loss of E. World (Holdings) were subsequently based on net income or net loss in the current year.

Since the combined equity interests of the Far Eastern Group in Ding Ding Integrated Marketing Service Co., Ltd. ("DDIM") allows the Company to exercise significant influence on its operating and financial policy decisions, the investment in DDIM is accounted for by the equity method even though the equity of DDIM owned by the Company is 15%.

The carrying values of the foregoing investments accounted for by the equity method are based on audited financial statements as of December 31, 2004 and 2003. For the years ended December 31, 2004 and 2003, the equity in investees' net gains (losses) were $3,796,571 and $(344,626), respectively.

The consolidated financial statements include the accounts of the Company and its direct and indirect subsidiaries with individual total assets or total operating revenues exceeding 10% of the unconsolidated total assets or operating revenues of the Company. Other subsidiaries are also consolidated if their combined total assets or operating revenues exceeds 30% of the unconsolidated total assets or operating revenues of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements as of and for the year ended December 31, 2004 and 2003 include the accounts of the Company, KG Telecom (former Yuan Ho in 2003) and Yuan-Ze.

6. PROPERTIES

a. Accumulated depreciation consisted of:

	December 31	
	2004	**2003**
Buildings and equipment	$ 321,109	$ 237,761
Operating equipment	25,606,547	20,015,576
Computer equipment	4,228,465	3,063,835
Office equipment	552,836	449,549
Leasehold improvements	726,318	578,898
Miscellaneous equipment	39,906	42,884
	$ 31,475,181	$ 24,388,503

Depreciation expense for the years ended December 31, 2004 and 2003 was $7,279,540 and $7,070,142, respectively.

Insurance coverage on property and rental assets amounted to $33,459,694 as of December 31, 2004.

b. The Company leases internet equipment with software (included in operating equipment) under a three year lease, with total lease payments amounting to $35,686. The lease agreements qualify as capital leases since (a) the present value of the future lease payments under the agreement is more than 90% of the fair value of the leased assets, and (b) the Company had a bargain-purchase option to purchase all the leased equipment at a $1.00. The Company purchased the internet equipment with software when the agreement expired in 2003.

The Company leases computer equipment from Far Eastern International Leasing Corporation under a five year lease with annual lease payments of $15,414. The amount paid for the leased properties at the inception of the lease was $73,750 (net of the market price of new equipment $138,716 less equipment exchanged valued at $64,996). The total lease payments amount to $77,068. The lease agreements qualify as capital lease since (a) the present value of the future lease payments under the agreement exceeds 90% of the fair value of the leased assets, and (b) the lease term is equal to 75% or more of the estimated economic life of the leased assets. The details of the lease as of December 31, 2004 are as follows:

	December 31 2004
Total future lease payments	$ 61,654
Less - imputed interest expense	2,654
	59,000
Less - current portion of lease payable (included in current portion of long-term liabilities)	14,750
Long-term lease payable	$ 44,250

c. Capitalized interest on properties was as follows:

	For the Years Ended December 31	
	2004	**2003**
Total interest expense	$ 394,152	$ 409,856
Less - interest capitalized - interest at 2.16% to 2.73% in 2004 and 2.48% to 3.91% in 2003	57,082	93,692
Interest expense, net of amounts capitalized	$ 337,070	$ 316,164

d. Properties amounting to $3,888,928 and $4,669,921 had been pledged or mortgaged as collateral as of December 31, 2004 and 2003, respectively.

7. RENTAL ASSETS, NET

	December 31, 2004
Cost	
Land	$ 99,524
Buildings	94,672
	194,196
Less - accumulated depreciation	
Buildings	3,220
	$ 190,976

Depreciation expense for the year ended December 31, 2004 was $1,932 (included in non-operating expenses and losses - other).

Rental properties are offices which are intended to be used as operating premises for future business expansion. The rental agreements will expire at various dates through February 2013. Future rental income is summarized as follows:

Year	Amount
2005	$ 9,833
2006	9,913
2007	9,994
2008	4,111
After 2009	15,971

8. SHORT-TERM LOANS

The Company obtained unsecured bank loans at interest of 1.4%. Outstanding unsecured bank loans were due and fully repaid in July 2004.

9. LONG-TERM LIABILITIES

	December 31, 2004		
	Due Within One Year	Due After One Year	Total
Bonds			
Overseas unsecured convertible bonds	$ 778,227	$ -	$ 778,227
Interest premium - overseas unsecured convertible bonds	14,641	-	14,641
Domestic secured bonds	660,000	-	660,000
Domestic unsecured bonds - 1st	-	4,200,000	4,200,000
Domestic unsecured bonds - 2nd	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd	-	3,000,000	3,000,000
	1,452,868	8,670,000	10,122,868
Long-term lease payable	14,750	44,250	59,000
	$ 1,467,618	$ 8,714,250	$ 10,181,868

	December 31, 2003		
	Due Within One Year	Due After One Year	Total
Bonds			
Overseas unsecured convertible bonds	$ -	$ 3,906,550	$ 3,906,550
Interest premium - overseas unsecured convertible bonds	-	33,886	33,886
Domestic secured bonds	616,000	660,000	1,276,000
Domestic unsecured bonds - 1st	-	4,200,000	4,200,000
Domestic unsecured bonds - 2nd	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd	-	3,000,000	3,000,000
	616,000	13,270,436	13,886,436

(Continued)

	December 31, 2004		
	Due Within One Year	Due After One Year	Total
Long-term debt			
Commercial paper	$ 610,000	$ 686,942	$ 1,296,942
Unsecured bank loans	-	300,000	300,000
Secured bank loans	-	3,300,000	3,300,000
	610,000	4,286,942	4,896,942
	$ 1,226,000	$ 17,557,378	$ 18,783,378

a. Overseas unsecured convertible bonds

Five-year unsecured zero coupon convertible bonds, with total face value of US$115,000 thousand, were issued on February 19, 2003. The bonds are listed on the Luxembourg Stock Exchange. The repayment or conversion terms of the bonds are as follows:

1) The Company's redemption of the bonds upon maturity at 105.114% of their face value;

2) Redemption at the option of the bondholder at 102.015% of their face value on February 19, 2005;

3) The right of each bondholder to convert the bonds into shares or global depositary receipts between March 21, 2003 and January 20, 2008. The conversion price on December 31, 2004 was NT$27.94, subject to adjustment for shares change.

   As of December 31, 2004, convertible bonds amounting to US$90,458 thousand had been converted into 111,815 thousand shares of common stock (including 165 thousand units of Global Depositary Receipts representing 2,473 thousand shares of common stock).

4) At any time on or after February 19, 2006 and prior to February 19, 2008, the Company may redeem the Bonds in whole, or from time to time in part at a specific price under certain conditions. In addition, the Company may redeem the Bonds in whole, but not in part, if at least 90% in principal amount of the Bonds has already been redeemed, repurchased and cancelled or converted.

   As of January 31, 2005, amounting to US$104,500 has been converted, which represents more than 90% of the original principal amount of the Bonds. As a result, the Company has decided to redeem the Bonds in whole and has given the notice to the holders of the Bonds on January 31, 2005. Bondholders who wants to exercise conversion right shall deposit the Bond with the trustee or any paying agent before March 2, 2005 or the Company will redeem the Bonds in whole at 102.08% of the principal amount on March 14, 2005.

b. Domestic secured bonds

Five-year domestic secured bonds were issued at par value on November 30, 2000 by the Company. The total face value of the bonds is $2,200,000, with face value of $1,000 and 5.06% interest, compounded semiannually. Starting on November 30, 2002 and every six months thereafter, the Company should redeem the bonds for up to 14% to 15% of their face value.

c. Domestic unsecured bonds - 1st

Five-year domestic unsecured bonds were issued at par value on February 19, 2002 by the Company. The total face value of the bonds is $4,200,000, with face value of $1,000 at 3.4% annual interest. Redemption is at a percentage of the face amount of the bond, as follows: Type I bond - 40% in February 2006 and 60% in February 2007; and Type II bond - 60% in February 2006 and 40% in February 2007.

d. Domestic unsecured bonds - 2nd

Five-year domestic unsecured bonds were issued at par value on March 28, 2003 by the Company. The total face value of the bonds is $1,470,000, with face value of $1,000 and interest rate of 2.6% in the first year and 3.2% minus USD six-month LIBOR rate from the second year to maturity, payable semiannually. The Company should redeem the full amount when the bonds become due in 2008.

e. Domestic unsecured bonds - 3rd

Three-year, four-year and five-year domestic unsecured bonds were issued at par value by the Company on December 12, 2003. The total face value of the bonds is $3,000,000, with face value of $5,000 and annual interest rates of 1.83% (three-year bonds) and 1.92% (four-year bonds). The interest rate for five-year bonds is 5.2% minus USD six-month LIBOR rate if the LIBOR rate is greater than 1.05%; otherwise, the interest is at the LIBOR rate plus 1%, payable semi-annually. The Company should redeem the full amount when the bonds become due in 2006, 2007 and 2008.

f. Long-term lease payable

The Company entered into capital lease agreements for computer equipment with Far Eastern International Leasing Corp. in July 2004. The annual lease payments amount to $15,414 (Note 6).

g. Commercial paper

Under a revolving credit agreement, a consortium of banks has guaranteed the commercial paper of $1,296,942 to be reissued until August 30, 2005. The commercial paper bears variable interest rates of 0.90% to 0.95% as of December 31, 2004. Starting in 2001, the maximum amount of commercial paper that can be reissued under the agreement will be decreased by 14-15% every six months.

h. Unsecured bank loans

As of December 31, 2004, the Company had a $300,000 bank loan at an annual interest rate of 1.85%, due in July 2006.

i. Secured bank loans

The Company had a loan from a consortium of banks with interest rate of 1.982% as of December 31, 2004. The loan is guaranteed by a consortium of banks, and the guarantee is effective until February 4, 2007. Starting on August 4, 2004, the maximum amount that the Company can borrow will be decreased by 16% to 17% of the principal every year.

Under the terms of the long-term loan contracts, the Company must meet certain financial conditions such that total liabilities must be less than 125% of the Company's net assets and tangible assets should not be less than $18,900,000. No other restrictions exist under the Company's long-term and short-term credit facilities.

As of December 31, 2004, the Company had unused long-term and short-term credit lines of approximately $4,800,000 and $7,200,000, respectively.

10. STOCKHOLDERS' EQUITY

Under government regulations, capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized. In addition, capital surplus (includes both paid-in capital in excess of par value and arising from business combination) may be used to offset a deficit or transferred to capital as a stock dividend within prescribed limits only.

The Company's Articles of Incorporation provide that, every year, 10% of net income less income tax and any accumulated deficit should be appropriated as legal reserve. In addition, if the Company decides to distribute dividends, 2% of the balance should be appropriated as bonuses to employees, and 1% of the final balance should be appropriated as remuneration to directors and supervisors.

Under the ROC Company Law, legal reserve should be appropriated until the accumulated reserve equals the Company's paid-in capital. The reserve can only be used to offset a deficit, or when the reserve reaches 50% of the Company's paid-in capital, up to 50% of the reserve can be distributed as stock dividend.

The cash dividends should be at least 10% of total dividends declared. The adjustment of this percentage may be approved by the stockholders depending on the cash requirement for any significant future capital expenditures.

These appropriations and other allocations of earnings should be resolved by the stockholders in the following year and given effect to in the financial statements of that year.

Under the integrated income tax system, noncorporate ROC-resident stockholders are allowed a tax credit for the income tax paid by the Company on earnings generated from January 1, 1998. Under this system, the Company maintains an imputation credit account (ICA) for the income tax and the tax credits allocated to each stockholder. The maximum credit available for allocation to each stockholder cannot exceed the balance shown in the ICA on the date of dividend distribution.

The appropriation and distribution of the 2003 and 2002 earnings were approved by the stockholders on June 30, 2004 and May 23, 2003, respectively.

	Appropriation and Distribution		Dividend Per Share (Dollars)	
	2003	**2002**	**2003**	**2002**
Legal reserve	$ 818,813	$ 780,842		
Bonus to employees - cash	147,387	140,551		
Remuneration to directors and supervisors - cash	73,693	70,276		
Cash dividend	4,748,620	2,997,540	$ 1.40	$ 1.30
Stock dividend	1,560,261	3,896,802	0.46	1.69

Had the above bonus to employees and directors been charged to net income in 2003 and 2002, the primary earnings per share for 2003 and 2002 (after tax), based on the weighted-average number of outstanding shares of 2,697,786 and 2,305,800 thousand, respectively, would have decreased from NT$3.04 to NT$2.95 and from NT$3.39 to NT$3.29, respectively.

The appropriation of the 2004 earnings of the Company had not been approved by the board of directors and stockholders as of February 4, 2005. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

Under the Enterprise Mergers and Acquisitions Law No. 12, the Company entered into an agreement with a dissenting stockholder (Bai Yang Investment Co., Ltd.) on April 16, 2004 to repurchase 113,044 thousand shares for $3,334,798 which was paid on April 26, 2004. The difference between the fair value and the repurchase price of the treasury stock of $821,733 was recorded as a reduction to unappropriated earnings.

The Company issued 693,523 thousand new shares (included in capital stock and capital surplus - from business combination in the amount of $6,935,232 and $8,482,381, respectively, amounting to NT$15,417,613) and reissued the 113,044 thousand shares held as treasury stock in order to satisfy the consideration to the stockholders of KG Telecom for the remaining ownership and completed the share swap for 806,567 thousand shares in the amount of $17,930,678 (Note 5).

Information related to the Company's Global Depositary Receipts (GDRs) as of December 31, 2004 is as follows:

		GDRs (in Thousand Units Units	**Representing Common Stock (in Thousand Shares)**
Initial offering	a	$ 10,000	$ 150,000
Converted from overseas unsecured convertible bonds	b	165	2,473
Issued for capital increase	c	296	4,448
Reissued within authorized units	d	349	5,233
GDR's transferred to common stock		(8,282)	(124,238)
Outstanding issued		$ 2,528	$ 37,916

a. On June 1, 2004, the Securities and Futures Bureau (SFB) approved the Company's request to sell 150,000 thousand shares of the Company's common stock in the form of GDRs to foreign investors representing 10,000 thousand units of GDRs. One GDR unit represents 15 shares of the Company's common stock. The issuance of the GDRs was completed on June 17, 2004 and the GDRs were traded and listed on the Luxembourg Stock Exchange with a price of US$13.219.

b. On July 20, 2004, the SFB approved the Company's request to issue new common stock in the form of GDRs of US$114,500 thousand to be used for the conversion of overseas convertible bonds. As of December 31, 2004, 165 thousand units of GDRS have been issued for the conversion of overseas unsecured convertible bonds representing 2,473 thousand shares of common stock.

c. The Company issued 296 thousand units of GDRs as a result of a capital increase from capital surplus and retained earnings. The GDRs represent 4,448 thousand shares of common stock.

d. Under the terms of the GDR offering, following the completion of an offering is allowed to the extent that previously issued GDRs have been withdrawn, reissuance of GDRs is allowed up to the aggregate amount previously approved by the SFB. Accordingly, the Company has reissued 349 thousand units of GDRs representing 5,233 thousand shares of common stock.

The owners of GDRs have the same rights as holders of common stock except that the GDR owners should exercise the following beneficial interests subject to the terms of the Deposit Agreements and the relevant ROC laws and regulations through the Depositary Trust Company:

a. Exercise voting rights;
b. Transfer the GDRs; and
c. Receive dividends and exercise preemptive rights or other rights and interests.

11. EARNINGS PER SHARE

The information on earnings per share (EPS) calculation is as follows:

	Amount (Numerator)		Common Stock (Denominator) (in Thousand Shares)	Earnings Per Share (Dollars)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
For the year ended December 31, 2004					
Basic EPS					
Net income	$ 14,552,629	$ 14,043,076	3,748,089	$3.88	$3.75
Effect of potential dilutive common stock					
Convertible bonds	(62,776)	(60,578)	124,574		
Diluted EPS					
Net income including the effect of potential dilutive common stock	$ 14,489,853	$ 13,982,498	3,872,663	$3.74	$3.61
For the year ended December 31, 2003					
Basic EPS					
Net income	$ 8,089,103	$ 8,188,133	2,967,565	$2.73	$2.76
Effect of potential dilutive common stock					
Convertible bonds	(18,695)	(18,924)	111,455		
Diluted EPS					
Net income including the effect of potential dilutive common stock	$ 8,070,408	$ 8,169,209	3,079,020	$2.62	$2.65

For the year ended December 31, 2003, EPS was retroactively adjusted for the 2003 stock dividend declared in 2004. Basic EPS decreased from $3.00 to $2.73 and diluted EPS from $3.04 to $2.76.

12. PENSION PLAN

The Company and KG Telecom (with 3 employees) accrue pension cost, separately, on the basis of actuarial calculations, and make monthly contributions, at 2% of salaries and wages, to each pension fund, which is administered by each pension plan committee and deposited in each company's Committee's name in the Central Trust of China.

Combined information on the pension plans is as follows:

a. Net pension cost consisted of:

	2004	2003
Service cost	$ 109,133	$ 63,200
Interest cost	18,498	8,880
Expected return on pension assets	(6,348)	(4,752)
Amortization	1,213	1,213
Net pension cost	$ 122,496	$ 68,541

b. Net pension costs of 2004 and 2003 is as follows:

	2004	2003
Actuarial net pension cost	$ 122,496	$ 68,541
Less: Included in properties	4,538	2,501
Included in other receivables - related parties	867	346
Included in reduction of operating costs and expenses (Note 13)	52,842	-
Net pension cost (included in operating costs and expenses)	$ 64,249	$ 65,694

c. Reconciliation of the fund status of the plan and accrued pension cost is as follows:

	December 31	
	2004	2003
Benefit obligation		
Vested benefit obligation	$ 3,080	$ 2,915
Non-vested benefit obligation	326,676	172,459
Accumulated benefit obligation	329,756	175,374
Additional benefits based on projected and future salaries	326,406	153,442
Projected benefit obligation	656,162	328,816
Fair value of plan assets	(291,970)	(152,469)
Unfunded projected benefit obligation	364,192	176,347
Unrecognized net transition obligation	(9,699)	(10,912)
Unrecognized pension gain (loss)	(128,185)	3,843
Accrued pension cost	$ 226,308	$ 169,278

d. Vested benefit amounts is as follows: $ 3,591 (2004) $ 3,507 (2003)

	2004	2003
e. Actuarial assumptions are as follows:		
Discount rate used in determining present value	3.25%	3.25%
Future salary increase rate	3.50%	3.25%
Expected rate of return on plan asset	3.25%	3.25%

f. Fund changes are as follows:

	2004	2003
Beginning balance	$ 152,469	$ 120,163
Contributions	42,502	30,393
Earnings	3,119	1,913
Ending balance	198,090	152,469
Add: Fund of KG Telecom	93,880	-
	$ 291,970	$ 152,469

13. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Year Ended December 31, 2004				
	Operating Costs	Operating Expenses	Non operating Expenses And Losses	Included in Reduction of Operating Costs and Expenses	Total
Employee expenses					
Salaries	$ 262,445	$ 1,184,483	$ -	$ 1,086,993	$ 2,533,921
Insurance	17,596	80,931	-	74,764	173,291
Pension	12,589	51,660	-	52,842	117,091
Miscellaneous	9,893	98,703	-	67,051	175,647
Depreciation	5,998,075	1,281,465	1,932	-	7,281,472
Amortization	-	66	-	-	66
	$ 6,300,598	$ 2,697,308	$ 1,932	$ 1,281,650	$ 10,281,488

	For the Year Ended December 31, 2003				
	Operating Costs	Operating Expenses	Non operating Expenses And Losses	Included in Reduction of Operating Costs and Expenses	Total
Employee expenses					
Salaries	$ 231,995	$ 1,305,637	$ -	$ -	$ 1,537,632
Insurance	15,200	94,395	-	-	109,595
Pension	3,571	62,123	-	-	65,694
Miscellaneous	10,432	102,982	-	-	113,414
Depreciation	5,935,882	1,134,260	-	-	7,070,142
Amortization	-	211	-	-	211
	$ 6,197,080	$ 2,699,608	$ -	$ -	$ 8,896,688

Since 2004, the Company provides management services to equity-accounted investees (Note 15). The employee expenses were charged based on agreed-upon terms and recorded as a reduction of operating costs and expenses.

14. INCOME TAX

a. Reconciliation of income tax expense based on income before income tax at statutory income tax rates to income tax expense - current is as follows:

	December 31	
	2004	2003
Income tax expense computed at statutory tax rate (25%)	$ 3,638,157	$ 2,022,276
Add (deduct) tax effects of:		
Permanent differences	(935,142)	87,356
Temporary differences	147,036	119,342
Tax-exempt income	(2,458,203)	(2,060,530)
Unappropriated earnings tax (10%)	123,949	17,460
Investment tax credits	(515,797)	(159,264)
Income tax expense - current	$ -	$ 26,640

The balance of income tax payable as of December 31, 2004 was net of the accrual of income tax payable of $1,456 for the year not yet examined and cleared by tax authorities. The balance of income tax payable as of December 31, 2003 was net of the creditable income taxes of $2,557.

Net operating income generated from the use of switches and cell sites acquired during the period April 1, 1997 to December 31, 1999 are exempt from income tax for the period January 1, 2000 to December 31, 2004.

Net operating income generated from the use of switches and cell sites acquired during the period January 1, 2000 to June 26, 2002 are exempt from income tax for the period June 26, 2002 to June 25, 2007.

b. Income tax expense (benefit) consisted of:

	December 31	
	2004	**2003**
Income tax expense - current	$ -	$ 26,640
Income tax expense (benefit) - deferred	481,870	(133,954)
Prior year's adjustment	27,028	5,214
Income tax expense on income subjected to a separate rate of 20%	655	3,070
Income tax expense (benefit)	$ 509,553	$ (99,030)

c. Deferred income taxes assets (liabilities) as of December 31, 2004 and 2003 consisted of:

	December 31	
	2004	**2003**
Current		
Investment tax credits	$ 878,994	$ 937,424
Provision for doubtful accounts	679,959	718,225
Unrealized foreign exchange loss (gain), net	6,224	(22,802)
Provision for losses on inventories	4,984	3,348
	1,570,161	1,636,195
Less: Valuation allowance	425,846	243,471
	$ 1,144,315	$ 1,392,724
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 435,946	$ 432,008
Unrealized loss from disposal of properties	40,152	-
Provision for losses on properties not currently used in operations	32,500	-
Accrued pension cost	63,017	42,986
Cumulative equity in the net loss of investees	5,168	8,927
Accrued interest premium	3,660	8,562
Investment tax credits	-	321,421
	$ 580,443	$ 813,904

The tax rate used in calculating deferred income tax was 25%.

d. Integrated income tax information:

	December 31	
	2004	2003
Balance of imputation credit account (ICA)	$ 57,916	$ 3,534

The estimated ratio of the ICA balance as of December 31, 2004 to undistributed earnings as of such date was 0.41%. When the dividends from the unappropriated earnings as of December 31, 2003 were distributed in 2004, the actual ratio used was 0.68%.

The tax credits will be accumulated until the date of dividend distribution. Upon dividend distribution, the ratio of the imputed tax credits to unappropriated earnings will be used for allocating tax credits to each stockholder.

e. Investment tax credits and loss carryforwards information:

The unused investment tax credits and loss carryforwards as of December 31, 2004 are summarized as follows:

Statutes	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 267,445	$ 149,060	2005
		141,604	30,031	2006
		54,946	54,946	2007
		99,344	99,344	2008
Statute for Upgrading Industries	Research and development expenditures	699,533	395,921	2004
		587,938	43,592	2005
		302,096	37,294	2006
		28,866	28,866	2007
		5,000	5,000	2008
Statute for Upgrading Industries	Personnel training expenditures	19,629	19,629	2005
		12,038	12,038	2006
		3,273	3,273	2007
		$ 2,221,712	$ 878,994	

f. Status of income tax returns:

Income tax returns through 1999 and 2002 had been examined and cleared by the tax authorities.

15. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Company’s related parties and relationships are as follows:

Related Party	Nature of Relationship
Yuan Ding Co. (YDC)	Same chairman
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman
Far Eastern International Leasing Corp. (FEILC)	Supervisor of the Company
Far Eastern Textile Ltd. (FETL)	Ultimate parent company

(Continued)

Related Party	Nature of Relationship
AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder and a related party until October 2003
Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
KG Telecommunications Co., Ltd. (former Yuan Ho Telecommunications Co., Ltd.) (KG Telecom)	Subsidiary
Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze)	Subsidiary
Far Eastern Info Service (Holding) Ltd. (Bermuda)	Subsidiary since September 2004
Far Eastern Technology Developmental Foundation (FETTDF)	The Company’s donation to the foundation’s capital over one third
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Far Eastern Department Stores Co., Ltd. (FEDS)	Same chairman
Asia Cement Co., Ltd. (ACC)	Same chairman
Far Eastern Polychem Industries Ltd. (FETPI)	Same chairman
Far Eastern Technology Network Information Limited Company (Shanghai) (FETI)	Same ultimate parent company and a subsidiary of the Company since September 2004
E. World (Holdings) Ltd. (E. World)	Subsidiary
Yuan Ding Investment Co., Ltd.	Same chairman
Far Eastern Memorial Hospital	Same chairman
Oriental Securities Co., Ltd.	Same ultimate parent company
Yuan-Ze University	Same chairman
Ya Tung Department Store Co., Ltd.	Same chairman
Far Eastern Investment Holding Ltd. (Bermuda) (FETIH)	Same ultimate parent company
Oriental Industrial Holding Pte. Ltd. (Singapore) (OIHP)	Subsidiary of ACC
FEDS Development Ltd. (BVI) (FEDSD)	Subsidiary of FETDS
Yue-Tung Investment Corp. (YTI)	Subsidiary of UMMT
Far Eastern International Bank	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
E. World Ltd. (Taiwan)	Same chairman
Oriental Institute of Technology	Same chairman
Ding Ding Hotel Co., Ltd.	Same chairman
Liquid Air Far East Co., Ltd.	Its chairman is the relative of the Company’s chairman
Far Eastern Apparel Co., Ltd.	Same ultimate parent company
Yuan Ding Leasing Corp.	Same ultimate parent company
Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee
KGEx.com (KGEx)	Subsidiary of KG Telecom and a related party since January 2004
KGT International Holdings	Subsidiary of KG Telecom and a related party since January 2004
KG Satellite	Subsidiary of KG Telecom and a related party since January 2004
Taipei Metro Properties Management	Same ultimate parent company
NTT DoCoMo Inc.	Director of the Company
Bai Yang Investment Co., Ltd.	Its chairman is the relative of the Company’s chairman
Kai Yuan International Investment Co., Ltd.	Same ultimate parent company
An Ho Garment Co., Ltd.	Same ultimate parent company
Yuan Tong Investment Co., Ld.	Same ultimate parent company
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company

In addition to Notes 5, 6 and 10, the significant transactions with the above parties are summarized as follows:

		2004		2003	
		Amount	**%**	**Amount**	**%**
During the year period					
Operating revenue	a.				
KG Telecom	b.	$ 949,203	3	$ -	-
NCIC	c.	634,227	2	695,687	2
KGEx	d.	95,274	-	-	-
Other	aa.	9,161	-	8,845	-
		$ 1,687,865	5	$ 704,532	2
Operating costs and expenses					
Service cost					
KG Telecom	b.	$ 825,143	5	$ -	-
FETEC	e.	20,995	-	30,941	-
Other	aa.	5,732	-	53,824	-
		$ 851,870	5	$ 84,765	-
Rental					
FEILC	f.	$ 54,451	3	$ 91,305	7
FETRD	g.	50,301	3	-	-
NCIC	h.	24,761	2	-	-
FETL	i.	4,706	-	54,895	4
Other	aa.	7,199	-	7,648	-
		$ 141,418	8	$ 153,848	11
Management service fee					
AWS	j.	$ -	-	$ 59,215	100
Research and development expenses					
FETTDF	k.	$ 20,232	78	$ 22,971	66
Service fee					
FETI	l.	$ 138,216	59	$ 66,418	24
FCHRC	m	43,653	18	162,770	60
		$ 181,869	77	$ 229,188	84
Handset subsidies					
KG Telecom	n.	$ 27,426	1	$ -	-
Nonoperating income and gains					
Management service revenue					
KG Telecom	o.	$ 62,844	79	$ -	
Yuan-Ze	p.	8,843	11	181,996	100
KGEx	q.	7,500	10	-	-
		$ 79,187	100	$ 181,996	100

(Continued)

		2004		2003	
		Amount	%	Amount	%
Commissions					
KG Telecom	n.	$ 126,408	100	$ -	-
Rental and maintenance income (including other operation income and gains)					
NCIC	r.	$ 4,616	9	$ 3,663	9
Gain on disposal of properties					
NCIC	s.	$ 811	-	$ 64,646	772
Other					
NCIC	s.	$ -	-	$ 7,400	18
Acquisition of investments in shares of stock					
FETPI	t.	$ 92,616	14	$ -	-
FETIH	u.	12,531	2	-	-
OIHP	u.	12,531	2	-	-
YTI	u.	12,531	2	-	-
FEDSD	u.	4,195	1	-	-
		$ 134,404	21	$ -	-
Acquisition of properties					
NCIC	v.	$ 158,398	6	$ -	-
FETEC	w.	82,435	3	73,576	1
FEILC	f.	73,750	3	1,532,506	31
KG Telecom	z.	43,068	2	-	-
Other	aa.	627	-	-	-
		$ 358,278	14	$ 1,606,082	32
At end of year					
Receivables from related parties					
KG Telecom	b. and o.	$ 845,798	83	$ 70,777	28
Yuan-Ze	p.	118,927	12	70,838	27
NCIC	c. and s.	21,815	2	87,768	34
FETI	l.	-	-	17,410	7
Other	aa.	32,116	3	11,351	4
		$ 1,018,656	100	$ 258,144	100
Prepaid expenses					
FEDS	x.	$ 1,133	-	$ 1,159	-
YDC	y.	790	-	1,030	-
FETL	i.	604	-	753	-
NCIC	h.	590	-	-	-
Other	aa.	1,930	-	1,339	-
		$ 5,047	-	$ 4,281	-

(Continued)

		2004 Amount	%	2003 Amount	%
Refundable deposits					
FEILC	f.	$ 4,590	2	$ 6,390	3
NCIC	h.	1,769	1	-	-
YDC	y.	564	-	908	-
Other	aa.	255	-	219	-
		$ 7,178	3	$ 7,517	3
Payables to related parties					
NCIC	c. and v.	$ 144,032	48	$ 24,864	11
KG Telecom	n. and z.	54,198	18	-	-
FETEC	e. and w.	40,259	14	169,986	76
FEILC	f.	30,049	10	265	-
FETL	i.	2,485	1	14,508	6
Other	aa.	27,429	9	15,016	7
		$ 298,452	100	$ 224,639	100
Long-term lease payable (includes current portion)					
FEILC	f.	$ 59,000	100	$ -	-

The descriptions of the transactions with related parties are as follows:

a. Operating revenues (such as service revenues, revenues from sales of cellular phone equipment and accessories and lease - circuit revenue) from related parties are based on normal service rates, selling prices and collection terms.

b. The transactions between the Company and KG Telecom consisted of the interconnection activities for KG Telecom’s use of the Company’s network and via versa. The interconnection fee received from KG Telecom for its use of the Company’s network are included in service revenue. The interconnection fee paid by the Company on its use of KG Telecom’s network and billing processing costs pertaining to the interconnection service are included in service cost.

c. The transactions between the Company and NCIC consisted of sales of cellular phone units and accessories and interconnection activities for NCIC’s use of the Company’s network. The interconnection fees paid by the Company on its use of NCIC’s fixed-line network and billing processing costs pertaining to the interconnection services provided by NCIC to the Company are included in service cost. The international direct dialing revenue collected by the Company for NCIC was treated as a reduction of service revenue and was included in payables to related parties.

d. The international direct dialing revenue collected by the Company for KGEx through call-by-call selection service was treated as a reduction of service revenue and was included in payables to related parties. The interconnection fees paid by the Company on its use of KGEx’s fixed-line network and billing processing costs pertaining to the interconnection services provided by KGEx to the company are included in service cost. The transactions are comparable with third parties.

e. The Company signed a network maintenance contract with FETEC for maintaining the Company’s telecommunications network and backbone network facilities.

f. Under operating lease agreements, the Company leased from FEILC the following: (a) its office spaces in Neihu, Tainan and Kaohsiung under a contract with a term from February 2000 to June 2004; (b) the land and mobile switch centers located in Neihu, Taichung and Hsinchu from November 1999 to June 2004; and (c) vehicles. The contracts will remain valid unless either the Company or FEILC inform each other to cancel the contracts.

   When the related contracts expire, the Company may either renew the contracts or buy the buildings or land at the following prices:

	Purchase Price
Neihu switch center	$ 130,000
Taichung land for switch center	106,050
Tainan office space	78,000
Kaohsiung office space	45,900
Hsinchu land for switch center	120,000

   The lease contract on the office spaces in Neihu expired in April 2003. The board of directors approved the purchase of the land and buildings in Neihu for use as the Company's headquarters on February 26, 2003. The purchase price of $1,532,382 (without sales tax) was determined based on the appraisal report obtained from real estate professionals. The title to the land and buildings was transferred to the Company by the end of April 2003.

   The Company leases from FEILC computer equipment, under a five year lease from July 2004 to June 2009, with annual lease payments of $15,414 (Note 6).

g. The Company leases from FETRD several buildings and parcels of land under contracts with terms ranging from June 2003 to November 2013. The properties are located in Yatung Street and Renai Street in Panchao City; Wuku in Taipei County; and other locations in Taiwan.

h. The Company leases from NCIC the telecommunications network and office space in Neihu under contracts with terms ranging from September 2003 to September 2008.

i. The company leases from FETL several buildings and parcels of land under contracts with terms ranging from July 1997 to November 2014. The properties are located in Yuantung Street in Chungli and other locations in Taiwan.

j. The Company signed a service agreement with AWS in January 1997 for AWS to provide consulting services on the construction of a wireless network and business operations. The service charges were based on the actual expenses incurred by the AWS consultants.

k. FETTDF researches telecommunication technology and provides training programs for the Company.

l. The Company signed a service agreement with FETI in 2003. The service charges were based on the services provided by FETI as agreed upon with the Company. The advances to FETI were treated as receivables from related parties, and were collected at various times based on the cash balances of FETI.

m. The Company has contracts with FCHRC for manpower dispatching service. The service charges were based upon the services provided by FCHRC for temporary or specific personnel supplies.

n. The Company and KG Telecom have agreed to receive or pay handset subsidies and commissions due to the promotion of opposite SIM card numbers and advances for the costs of handsets purchased for each other in the net amount.

o. The Company provides management services and advances KG Telecom for its daily operating expenditures. The service revenue and advances are collected monthly.

p. The Company provides management services and advances Yuan-Ze for its daily operating expenditures. The service revenue and advances are collected monthly.

q. The Company provides management services to KGEX and the service revenues are collected annually.

r. The Company leases its HUB spaces to NCIC and provides related maintenance service. The lease agreement will expire in March 2005.

s. The advances for the construction and joint use of telecommunications network and backbone network facilities between the Company and NCIC and receivables from sales of properties to NCIC were included in receivables from related parties. The proceeds and the gains on disposal of properties for the year ended December 31, 2004 are $8,011 and $811, respectively.

   The Company sold HUB and related operating equipment located in Tai-Ping, Taichung County to NCIC in 2003. The selling price of the HUB and related operating equipment, which is comparable to market prices, was $154,805 with a related service charge of $7,770, including sales tax. For the year ended December 31, 2003, the gain on disposal of properties and service charge for the management of the building was $64,646 and $7,400, respectively, which was recorded as nonoperating income as net gains from disposal of properties.

t. The Company purchased 100% ownership of Far Eastern Info Service (Holding) Ltd. in the amount of $92,616 on August 30, 2004. As a result, the Company acquired 100% ownership of FETI indirectly.

u. The Company purchased 4,685 thousand shares in the amount of $41,788 thousand in June, 2004 representing ownership of 66.92% of E. World from FETIH, OIHP, FEDSD and YTI (Note 5).

v. The Company purchased NCIC's telecommunications network and backbone network facilities.

w. The Company maintains contracts with FETEC for the construction of telecommunications network and backbone network facilities.

x. The Company leases from FEDS several buildings and parcels of land located in several places in Taiwan under contracts with terms ranging from December 1997 to October 2016.

y. The Company leases certain floors at Taipei Metro The Mall for the period September 1999 to December 2005 from YDC.

z. The Company purchased operating and computer equipment from KGT.

aa. The accounts of other related parties were less than 5% of the total of respective accounts.

All of the above rental rates and terms are comparable to leases with third parties.

16. COMMITMENTS AS OF DECEMBER 31, 2004

a. The Company has outstanding contracts to acquire properties for $397,228.

b. The Company's outstanding letters of credit amounted to ¥526,784 thousand (equivalent to $162,934) and US$606 thousand (equivalent to $19,216).

c. Payments for the rental of land, buildings and cell sites for the next five years are summarized as follows:

Period	Amount
2005	$ 1,390,284
2006	1,443,658
2007	1,449,100
2008	1,556,690
2009	1,616,512

17. SUBSEQUENT EVENTS

In addition to Notes 1 and 9, the Company has the following subsequent events:

On January 4, 2005, the Company signed an agreement to purchase 74,348 thousand shares (approximately 55.3% ownership) of Arcoa Communication Co. (ARCOA) from stockholders of ARCOA for an average price of $16.26 per share; totalling $1,208,866. The merger was approved by the Fair Trade Commission (FTC) on February 4, 2005.

The Company deposited $350,000 in escrow with Citibank (included in restricted assets) on December 24, 2004. The deposit was restricted and was transferred as part of the purchase price upon signed agreement.

18. ADDITIONAL DISCLOSURES

A. Important transactions and B. Related information of the Company's investees.

a. Financing provided: None

b. Endorsement/guarantee provided: None

c. Marketable securities and investments in shares of stock held: Schedule A

d. Marketable securities acquired and disposed of at costs or prices of at least NT$100 million or 20% of the paid-in capital: Schedule B

e. Acquisition of individual real estate at costs of at least NT$100 million or 20% of the paid-in capital: None

f. Disposal of individual real estate at prices of at least NT$100 million or 20% of the paid-in capital: None

g. Total purchase from or sale to related parties amounting to at least NT$100 million or 20% of the paid-in capital: Schedule C

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Schedule D

i. Names, locations, and related information of investees on which the Company exercises significant influence: Schedule E

j. Derivative financial instruments

The Company used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rates for the years ended December 31, 2004 and 2003. All these transactions are for nontrading purposes.

The information on derivative financial instrument contracts entered into by the Company are as follows:

1) Open contracts and credit risk

	December 31, 2004						
Type of Transaction	**Notional Amount**	**Fixed Rate**	**Market Rate**	**Settlement Date**	**Maturity Date**	**Fair Value**	**Credit Risk**
Interest rate swap	$ 2,670,000	1.25%-1.95%	1.004%-2.540%	Every 6 months	March 28, 2008 - December 19, 2008	$ (62,401)	$ -

	December 31, 2003						
Type of Transaction	**Notional Amount**	**Fixed Rate**	**Market Rate**	**Settlement Date**	**Maturity Date**	**Fair Value**	**Credit Risk**
Interest rate swap	$ 2,670,000	1.25%-1.95%	2.60%-3.98%	Every 6 months	March 28, 2008 - December 19, 2008	$ 19,723	$ 19,723

The related gains of the Company on these swap contracts for the years ended December 31, 2004 and 2003 were $29,680 and $9,420, respectively, and were recorded as a reduction of interest expense.

There were no outstanding forward contracts as of December 31, 2004 and 2003, respectively.

The related gains of the Company on forward contracts for the years ended December 31, 2004 and 2003 were $770 and $4,103, respectively, and were recorded as a reduction of inventory.

The Company is exposed to credit risk if counter-parties default on their contractual obligations. To manage this risk, the Company transacts only with selected financial institutions with good credit ratings. Thus, management does not anticipate any material losses resulting from defaults.

2) Market risk

The Company entered into interest rate swap and cross currency swap contracts to hedge the effect of foreign currency fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts. Therefore, the market risk is not material.

The Company entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on firm commitments. Therefore, the market risk is not material.

3) Liquidity risk, cash-flow risk and future cash demand

The interest rate swap contracts are settled at net amounts, and the expected cash demand is not significant. The forward exchange rates are determined in advance and no additional material cash is required. Due to the simultaneous cash inflow and outflow generated from cross currency swap contracts, the aggregated outcome of net cash flow is expected to be insignificant. Management believes that the Company have sufficient operating capital to meet cash demand.

4) The purpose of derivative financial instruments held or issued

The Company uses certain derivative financial instruments for nontrading purposes. The interest rate swap contracts are for hedging overall fluctuations on interest rates. The swap involves the Company's paying interest at a fixed rate and receiving interest based on market rates. The Company entered into forward exchange contracts to hedge the effects of exchange rate fluctuations on firm commitments. The cross currency swap contracts are for hedging overall fluctuations on interest rates and exchange rates from foreign currency obligations with floating rates. The overall purpose of these contracts is to hedge the Company's exposure to cash flow risk. The Company periodically evaluates the effectiveness of the instruments.

5) The fair values of financial instruments are as follows:

	December 31			
	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	$ 3,265,431	$ 3,265,431	$ 2,868,156	$ 2,868,156
Accounts and notes receivable, net	3,492,574	3,492,574	3,735,277	3,735,277
Receivables from related parties	1,018,656	1,018,656	258,144	258,144
Investments in shares of stock	44,030,365	44,030,365	21,641,987	21,641,987
Restricted assets	350,000	350,000	-	-
Refundable deposits	251,960	251,104	241,718	240,218
Financial liabilities				
Short-term loans	-	-	100,000	100,000
Notes payable	41,332	41,332	30,670	30,670
Accounts payable	381,145	381,145	1,043,206	1,043,206
Payables to related parties	298,452	298,452	224,639	224,639
Payables related to acquisition of properties	1,551,016	1,551,016	1,808,776	1,808,776
Long-term liabilities (including current portion)	10,181,868	10,334,628	18,783,378	19,013,516
Guarantee deposits received (including current portion)	1,220,321	1,220,321	1,553,591	1,553,591
Derivative financial instruments				
Interest rate swap	-	(62,401)	-	19,723

a) The carrying values of cash and cash equivalents, accounts and notes receivable, receivables from related parties, restricted assets, short-term loans, notes payable, accounts payable, payables to related parties and payables related to acquisition of properties are recorded at their carrying values due to the short maturity of these instruments.

b) The fair values of investments in shares of stock are recorded at the equity in the investees' net assets.

c) Long-term liabilities are recorded at market prices or, if market prices are unavailable, upon present value of expected cash outflows, which is discounted at the interest rates for bank loans or corporate bonds with similar maturity dates.

d) Refundable deposits and guarantee deposits received are recorded at the present values of future payments or receipts.

e) Fair values of derivative financial instruments are recorded at the quoted market prices obtained from banks.

KG Telecom used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rates for the year ended December 31, 2004. All of these transactions are for nontrading purposes.

The information on interest rate swap contracts and cross currency swap contracts entered into by KG Telecom is as follows:

1) Open contracts and credit risk

Type of Transaction	December 31, 2004						
	Notional Amount	**Fixed Rate**	**Market Rate**	**Settlement Date**	**Maturity Date**	**Fair Value**	**Credit Risk**
Interest rate swap	$ 1,000,000	3.38%-4.50%	1.193%	Every 3 months	May 20, 2005	$ (13,192)	$ -

Type of Transaction	December 31, 2003			
	Notional Amount	**Carrying Value**	**Fair Value**	**Credit Risk**
Cross currency swap	US$ 40,238 thousand	$ -	$ (108,370)	$ -

The related losses of KG Telecom on the swap contracts for the year ended December 31, 2004 were $143,452 including interest expense of $51,033 and foreign exchange loss of $92,419.

KG Telecom is exposed to credit risk if counter-parties default on their contractual obligations. To manage this risk, KG Telecom transacts only with selected financial institutions with good credit ratings. Thus, management does not anticipate any material losses resulting from defaults.

2) Market risk

KG Telecom entered into interest rate swap contracts to hedge its exposure to market risks due to potential interest rate fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts. Therefore, the market risk is not material.

KG Telecom entered into cross currency swap contracts to hedge its exposure to exchange rate and interest rate fluctuations on bank loans dominated in foreign currency. Therefore, the market risk is not material.

3) Liquidity risk, cash-flow risk and future cash demand

The interest rate swap contracts are settled at net amounts, and the expected cash demand is not significant. Due to the simultaneous cash inflow and outflow generated from cross currency swap contracts, the aggregated outcome of net cash flow is not expected to be significant. Thus, no additional material cash is required.

4) The purpose of derivative financial instruments held or issued
KG Telecom uses certain derivative financial instruments for nontrading purposes. The interest rate swap contracts are for hedging overall fluctuations on interest rates. The swap involves KG Telecom's paying interests at a fixed rate and receiving interests based on market rates. KG Telecom entered into interest rate swap and cross currency swap contracts to hedge the effects of exchange rate and interest rate fluctuations on bank loans denominated in foreign currency, particularly for KG Telecom's exposure to cash flow risk. KG Telecom periodically evaluates the effectiveness of the instruments.

C. Investment in Mainland China:

a. Investee company name, the description of the primary business activity and products, issued capital, nature of the relationship, capital inflow or outflow, ownership interest, gain or loss on investment, amounts received on investment, and the limitation on investment: Schedule F;

b. Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Note 15.

19. INDUSTRY SEGMENT INFORMATION

a. Industry

The Company provides wireless communications, leased circuit, Internet and international simple resale (ISR) services. No segment information is provided since the revenues from wireless communications services account for more than 90% of the Company's total revenues.

b. Foreign operations.

The Company has no revenue - generating unit that operates outside the ROC.

c. Foreign revenues

The Company has no foreign revenues.

d. Net sales to customers representing at least 10% of the Company's total net sales were as follows:

	2004		2003	
	Amount	**Percentage of Operating Revenue (%)**	**Amount**	**Percentage of Operating Revenue (%)**
Company A	$ 7,327,691	18	$ 7,139,284	19

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2004
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	December 31, 2004				Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	Stocks							
	KG Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,332,997,916.00	$ 33,786,566	100.00	$ 33,786,566	Note A
	Yuan-Ze Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,037,000,000.00	9,590,140	100.00	9,590,140	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Investments in shares of stock	54,000,000.00	433,544	45.00	433,544	Note A
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Investments in shares of stock	1,200.00	109,846	100.00	109,846	Note A
	E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	6,014,622.00	65,433	85.92	65,433	Note A
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Investments in shares of stock	4,500,000.00	44,836	15.00	44,836	Note A
E. World (Holdings) Ltd.	Stocks							
	E. World Ltd.	Equity-method investee	Investments in shares of stock	19,349,994.00	US$ 593,000	99.99	US$ 593,000	Note A
	Ideaculture Limited (Cayman)	-	Investments in shares of stock	1,195,141.00	US$ 431,000	17.96	US$ 143,000	Note C
Far Eastern Info Service (Holding) Ltd.	Share certificates							
	Far Eastern Technology Network Information Limited Company (Shanghai)	Equity-method investee	Investments in shares of stock	-	US$ 2,484,000	100.00	US$ 2,484,000	Note A
KG Telecommunications Co., Ltd.	Stocks							
	KGEx.com	Equity-method investee	Investments in shares of stock	175,931,000.00	898,944	50.27	898,944	Note A
	KGT International Holdings	Equity-method investee	Investments in shares of stock	50,000.00	97,725	100.00	97,725	Note A
	KG Satellite	Equity-method investee	Investments in shares of stock	9,950,000.00	83,256	66.33	83,256	Note A
	iScreen	Equity-method investee	Investments in shares of stock	4,000,000.00	66,098	40.00	66,098	Note A
	YesMobile	-	Investments in shares of stock	100,000.00	-	0.50	-	
	Mutual funds							
	Far Eastern Alliance Taiwan Bond Fund	-	Short-term investments	27,573,899.00	290,000	-	290,800	Note B
KGT International Holdings	Stocks							
	KGEx.com	Equity-method investee	Investments in shares of stock	16,051,000.00	US$ 2,586,000	4.59	US$ 2,586,000	Note A
KGEx.com	Mutual funds							
	Invesco Bond Fund	-	Short-term investments	2,414,425.85	35,000	-	35,000	Note B
	Sheng Hua 1699 Bond Fund	-	Short-term investments	720,290.45	8,565	-	8,708	Note B

(Continued)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	December 31, 2004				Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
KG Satellite	Mutual funds							
	Phoenix Fund	-	Short-term investments	1,377,042.20	$ 20,225	-	$ 20,225	Note B
	PCA Bond Fund	-	Short-term investments	213,823.80	3,241	-	3,241	Note B
	Central Diamond Bond Fund	-	Short-term investments	7,873,280.97	88,061	-	88,061	Note B

Note A: Calculation was based on audited financial statements as of December 31, 2004.

Note B: Open-ended mutual funds were calculated by net asset value of mutual funds as of December 31, 2004.

Note C: Calculation was based on the most current financial statements.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2004
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Account	Related Party	Nature of Relationship	Beginning Balance		Aquired		Disposed				The Change due to Equity Method	Ending Balance	
					Share/Units	Amount	Share/Units	Amount	Share/Units	Price	Costs	Gain or Loss		Share/Units	Amount
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Equity-method investee	Original stockholders of KG Telecom	-	526,430,771.00	$ 11,698,382	806,567,145 (Note D)	$ 17,930,678 (Note D)	-	$ -	$ -	$ -	$ 4,157,506 (Note B)	1,332,997,916.00	$ 33,786,566
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Issuance of stock by cash	-	6,500,000.00	65,000	47,500,000	475,000	-	-	-	-	(106,456) (Note C)	54,000,000.00	433,544
KG Telecommunications Co., Ltd. (Note A)	Fuhwa Bond Fund	Short-term investments	-	-	8,276,487.41	101,313	-	-	8,276,487.41	101,752	101,313	439	-	-	-
	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	28,193,838.32	335,263	-	-	28,193,838.32	336,616	335,263	1,353	-	-	-
	Sheng Hua 5599 Bond Fund	Short-term investments	-	-	27,259,695.01	292,862	-	-	27,259,695.01	293,494	292,862	632	-	-	-
	Entrust Kirin Bond Fund	Short-term investments	-	-	24,112,994.10	255,463	-	-	24,112,994.10	256,642	255,463	1,179	-	-	-
	Phoenix Fund	Short-term investments	-	-	52,414,671.20	756,895	-	-	52,414,671.20	759,803	756,895	2,908	-	-	-
	PCA Bond Fund	Short-term investments	-	-	17,673,057.10	263,885	-	-	17,673,057.10	264,260	263,885	375	-	-	-
	President Home Run Bond Fund	Short-term investments	-	-	9,818,196.30	132,159	-	-	9,818,196.30	132,351	132,159	192	-	-	-
	United Bond Fund	Short-term investments	-	-	11,773,049.24	147,593	-	-	11,773,049.24	147,687	147,593	94	-	-	-
	Truswell Bond Fund	Short-term investments	-	-	16,337,600.20	200,000	-	-	16,337,600.20	200,714	200,000	714	-	-	-
	Invesco GP Aggressive Income Fund	Short-term investments	-	-	10,510,341.13	115,223	-	-	10,510,341.13	115,490	115,223	267	-	-	-
	Grand Cathay Bond Fund	Short-term investments	-	-	13,666,157.20	170,000	-	-	13,666,157.20	170,069	170,000	69	-	-	-
	TA Chong Bond Fund	Short-term investments	-	-	12,012,974.00	150,000	-	-	12,012,974.00	150,067	150,000	67	-	-	-
	TA Chong Gallop Bond Fund	Short-term investments	-	-	19,154,886.40	200,000	-	-	19,154,886.40	200,090	200,000	90	-	-	-
	The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	421,785.10	6,740	6,255,473.50	100,000	6,677,258.60	106,865	106,740	125	-	-	-
	Fuh-Hwa Bond Fund	Short-term investments	-	-	12,150,254.50	154,518	-	-	12,150,254.50	155,336	154,518	818	-	-	-
	Far Eastern Alliance Taiwan Bond Fund	Short-term investments	-	-	-	-	27,573,879.00	290,000	-	-	-	-	-	27,573,879.00	290,000
KGEx.Com (Note A)	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	10,178,000.94	121,022	-	-	9,457,710.49	113,000	112,457	543	-	720,290.45	8,565
	Invesco Bond Fund	Short-term investments	-	-	-	-	9,688,918.37	140,000	7,274,492.52	105,216	105,000	216	-	2,414,425.85	35,000

Note A: The beginning balance was carried forward from KG Telecom's account balances due to the Combination with KG Telecom.

Note B: Including investment gain of $4,168,180 and cumulative translation adjustments of $(4,780) under the equity method and cash dividends of $(5,894).

Note C: Investment loss under equity method.

Note D: Acquisition from the Combination with KG Telecom (Note 5).

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2004
(Amounts in Thousands of New Taiwan Dollars)

Purchase (Sale) of Goods	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/Accounts Receivable or (Payable)	
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Subsidiary of the Company	Service revenue	$ (949,203)	(3%)	30 days	-	-	Accounts receivable (Note A) $ 38,724	4%
			Cost of services	825,143	5%	30 days	-	-	Accounts payable (Note A) -	-
	New Century InfoComm Tech Co., Ltd.	Same chairman	Service revenue	(634,227)	(2%)	30 days	-	-	Accounts receivable (Note B) 12,190	1%
									Accounts payable (Note B) (36,248)	(12%)
KG Telecommunications Co., Ltd.	KGEx.com	Subsidiary of KG Telecom	Service revenue	(217,626)	(1%)	30 days	-	-	Accounts receivable 24,938	27%
	New Century InfoComm Tech Co., Ltd.	Same chairman	Service revenue	(433,733)	(3%)	30 days	-	-	Accounts receivable (Note B) -	-
									Accounts payable (Note B) (25,472)	(3%)
	Far EasTone Telecommunications Co., Ltd.	Parent company	Service revenue	(825,143)	(3%)	30 days	-	-	Accounts receivable (Note B) -	-
			Cost of services	949,203	8%	30 days	-	-	Accounts payable (Note B) (38,724)	(4%)

Note A: Service revenue and cost of services between the Company and KG Telecom were settled at net amounts and was included in the Company’s receivables from related parties and KG Telecom’s payable to related parties.

Note B: All revenues and costs were settled at the full amount except interconnection revenues and costs and were included in receivables from related parties and payables to related parties, respectively.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2004
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Subsidiary	$845,798	(Note)	$ -	-	$361,353	$ -
	Yuan-Ze Telecommunications Co., Ltd.	Subsidiary	118,927	(Note)	-	-	-	-

Note: The turnover rate is unavailable as the receivables from related parties were mainly due to the advances in operating expenditures to related parties.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE YEAR ENDED DECEMBER 31, 2004
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2004			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				December 31, 2004	December 31, 2003	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	$ 29,629,139	$ 11,698,461	1,332,997,916	100.00	$ 33,786,566	$ 4,161,551	$ 4,168,180	Notes A and B
	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	10,370,000	10,370,000	1,037,000,000	100.00	9,590,140	(278,123)	(279,947)	Notes A and B
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	540,000	65,000	54,000,000	45.00	433,544	(177,472)	(106,456)	Notes B and C
	Far Eatern Info Service (Holding) Ltd.	British Bermuda Islands	Investment	92,616	-	1,200	100.00	109,846	34,811	17,230	Notes A and B
	E. World (Holdings) Ltd.	British Cayman Islands	Investment	82,883	41,095	6,014,622	85.92	65,433	(308)	(2,272)	Notes A and D
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	-	4,500,000	15.00	44,836	(26,294)	(164)	Notes B and C
KG Telecommunications Co., Ltd. (Note G)	KGEx.com	Taiwan	Type II telecommunications service	1,759,310	1,759,310	175,931,000	50.27	898,944	(1,152,123)		Notes B and E
	KGT International Holdings	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	97,725	(395,377)		Notes B and E
	KG Satellite	Taiwan	TYPE I telecommunications services	99,500	99,500	9,950,000	66.33	83,256	(6,232)		Notes B and E
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	66,098	(20,509)		Notes B and F
KGT International Holdings (Note G)	KGEx.com	Taiwan	Type II telecommunications service	US$4,822,000	US$4,687,000	16,051,000	4.59	US$2,586,000	(1,152,123)		Notes B and E
E. World (Holdings) Ltd.	E. World Ltd.	Taiwan	Sale of cellular phone equipments and accessories	193,500	193,500	19,349,994	99.99	US$ 593,000	22		Notes B and E
Far Eatern Info Service (Holding) Ltd.	Far Eastern Technology Network Information Limited Company (Shanghai)	Shanghai	Computer software, data processing and network information providing services	US$2,500,000	-	-	100.00	US$2,484,000	34,000		Notes B and E

Notes: A. Subsidiary.

B. Calculation was based on audited financial statements as of December 31, 2004.

C. Equity-method was investee of the Company.

D. The equity in net gain (loss) was used to be recognized in the succeeding year because the audited financial statements of the investee were not timely available. However, the equity in net gain (loss) has been recognized at the same period since the percentage of ownership exceeded 50%. Calculations was based on audited financial statements in 2003 and 2004.

E. Subsidiary of KG Telecom.

F. Equity-method investee of KG Telecom.

G. The original investment amounts were equal to those of KG Telecom’s account balances as of December 31, 2003 due to the Combination with KG Telecom in 2004.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2004
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2004	Investment Flows		Accumulated Outflow of Investment from Taiwan as of Dec. 31, 2004	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of Dec. 31, 2004	Accumulated Inward Remittance of Earnings as of Dec. 31, 2004	Accumulated Investment in Mainland China as of Dec. 31, 2004	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Far Eastern Technology Network Information Limited Company (Shanghai)	Computer software, data processing and network information providing services	$79,275 (US$2,500,000)	Note B	$ -	$92,616	$ -	$92,616	100%	$34,000	$78,757 (US$2,484,000)	$ -	$92,616	$92,616	$27,884,826 (Note C)

Note A: Calculation of investment gain (loss) was based on audited financial statement as of December 31, 2004 by Deloitte Touche Tohmatsu CPA Ltd., Shanghai office

Note B: The Company made the investment through existing company registered in 3rd region.

Note C: Equal to 40% of Far EasTone's net asset value.